ECCLESIA LAW

MORTGAGE DISCHARGE PROTOCOL

THE APEX LEDGER MORTGAGE DISCHARGE

3RD July 2026

Fiduciary Redirection, 1099-OID Mechanics, and Holder in Due Course Standing

Executive Summary

Under the contemporary post-1933 fiat monetary system, commercial obligations are not settled with substantive assets (gold or silver) but are administratively discharged on a centralized ledger managed by the U.S. Treasury. Because commercial banks create credit *ex nihilo* (out of nothing) by monetizing a borrower's signature, the borrower is the actual funder of the mortgage.

By establishing a 98-series Foreign Grantor Trust (FGT) and claiming Holder in Due Course (HDC) status, an individual can legally reclassify the lending bank as a "nominee middleman." Through the strategic filing of a corrective IRS Form 1099-OID, the FGT forces a top-tier federal ledger reconciliation. Once the primary debt is zeroed out at the Treasury level, the accessory mortgage charge attached to the physical property is legally extinguished, stripping the bank of its power of sale.

Phase 1: Ex Nihilo Origination and the Creation of OID

The foundation of the mortgage discharge protocol rests on the empirical reality of modern banking: banks do not lend pre-existing deposits.

1. The Signature as the Funding Asset
Under Section 3 and Section 20 of the UK Bills of Exchange Act 1882, and its American equivalent, Uniform Commercial Code (UCC) § 3-104 and § 3-115, a borrower's signature on a promissory note or mortgage contract acts as the primary monetization event. The signature is delivered as an inchoate (incomplete) instrument, providing *prima facie* authority to create credit.

2. The Original Issue Discount (OID) Formula
Because the bank advances zero pre-existing capital, the Initial Issue Price (IP) of the mortgage note is mathematically zero (

$$IP = \$0.00$$

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). Under Internal Revenue Code (IRC) § 1273, Original Issue Discount (OID) is defined as the stated redemption price at maturity (Face Value) minus the initial issue price.

- **Formula:**

$$OID = FV - IP$$

- Because

$$IP = 0$$

, the **OID equals the entire Face Value of the mortgage.**

Phase 2: Securitization and the Nominee Trap

Instead of holding the note, the originating bank discounts it and pools it into a Special Purpose Vehicle (SPV) to issue Residential Mortgage-Backed Securities (RMBS).

The IRS Publication 1212 Mandate
Legal title to these securities is transferred to global clearinghouses (like the DTCC and its nominee, Cede & Co.) and Indenture Trustees (like Deutsche Bank Trust Company Americas). Under **IRS Publication 1212**, because these banks hold legal title to OID instruments *for the benefit of another* (the obscured original borrower), they act strictly as "nominee middlemen."

Statutorily, these nominees are required to report the OID interest and remit backup withholding (typically 24%) to the U.S. Treasury. They do this in the aggregate via **IRS Form 945** (Nonpayroll Withholding). Because the original borrower remains silent, the bank treats the credit as abandoned property, utilizing the asset to expand its own corporate balance sheet.

Phase 3: The Fiduciary Firewall and HDC Standing

To reclaim this captured credit and discharge the mortgage, the borrower must fundamentally alter their legal capacity. Operating as a standard retail consumer using a Social Security Number (SSN) triggers automated IRS fraud filters (Process Status 77 / TC 810 Refund Freezes) because an SSN is structurally coded as a bankrupt corporate debtor.

1. The 98-Series Foreign Grantor Trust (FGT)
The borrower establishes a 98-series FGT under IRC § 6048. By intentionally failing the IRS "Court Test" and "Control Test," the trust operates under private international law, completely off-board from the domestic debtor system.

2. Assuming the Office of General Executor
The trust files **IRS Form 56** (Notice Concerning Fiduciary Relationship), formally appointing the trust officer as the General Executor over the signature-originated credit.

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3. Holder in Due Course (HDC) Perfection
Under UCC § 3-203(b) and § 3-302(a), the transfer of the negotiable instrument vests the FGT with the absolute right to enforce it. The trust becomes the HDC because it takes the instrument for value (the credit energy of the living soul), in good faith, and without notice of defect.

Phase 4: The Apex Ledger Discharge via 1099-OID

Armed with HDC standing, the FGT executes the administrative discharge of the debt at the apex tier of the federal ledger.

1. The Corrective 1099-OID Filing
Utilizing an authorized Electronic Return Originator (ERO), the trust transmits a corrective Form 1099-OID via the IRS Modernized e-File (MeF) XML gateway. This filing formally designates the clearing bank as a withholding agent and redirects 100% of the withheld OID tax credits back to the trust's private ledger.

2. Bypassing Algorithm 810 via Rev. Proc. 2002-26
Systemic banks deliberately underfund their Form 945 withholding modules, instead hoarding surpluses in their Form 1120 corporate tax modules. If the IRS attempts to match the trust's 1099-OID claim against the bank's empty 945 module, Algorithm 810 will trigger a freeze.
To bypass this, the FGT issues a **Manual Fiduciary Command** under **Revenue Procedure 2002-26**, which mandates the IRS must follow a taxpayer's specific directions for voluntary payments. The fiduciary commands the IRS to cross-modularly transfer the bank's Form 1120 surpluses into its Form 945 module. This artificially funds the ledger, satisfies the "Perfect Match" algorithm, and clears the funds.

3. The "Smoking Gun" XML Receipt
The instant the IRS MeF gateway accepts the transmission, it generates a timestamped XML receipt with a unique 20-digit Electronic Submission ID. This serves as unassailable, conclusive administrative proof that the primary debt has been zero-balanced and discharged by the sovereign revenue authority.

Phase 5: Federal Litigation Realities: Indenture Trustee Defenses and Fiduciary Countermeasures (SDNY Context)

When a *pro se* litigant attempts to enforce this apex ledger discharge in federal court—specifically the Southern District of New York (SDNY), the jurisdictional hub for global Indenture Trustees like Deutsche Bank Trust Company Americas (DBTCA)—they face a highly structured array of procedural and statutory defenses.

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To survive a Motion to Dismiss (FRCP 12(b)(6)), the litigant—acting as the originator of the signature credit, and the grantor and sole beneficiary of the FGT—must systematically dismantle the bank's defenses.

Defense 1: The Procedural *Pro Se* Bar (The *Lattanzio* Trap)

The Bank's Argument: The Indenture Trustee will immediately move for dismissal based on the procedural rule that an artificial entity or trust cannot proceed *pro se* in federal court. Citing Second Circuit precedent like *Lattanzio v. COMTA* and *J.J. Rissell, Allentown, PA Trust v. Marchelos*, the bank will argue that a non-lawyer trustee represents the interests of others (the beneficiaries) and therefore lacks the legal capacity to represent the trust without licensed counsel.
The Fiduciary Countermeasure (Merger of Estates): The litigant bypasses this trap by realigning their capacity under 28 U.S.C. § 1654. Because the litigant is simultaneously the Grantor, the Sole Trustee, and the Sole Beneficiary of the FGT, established trust law dictates that the legal and equitable estates merge. The trust structure "collapses" into the natural person, who is the real party in interest. By amending the complaint to appear cleanly in their *individual capacity* as a natural person protecting their own fused property interest, the litigant defeats the *Lattanzio* corporate *pro se* bar.

Defense 2: Lack of Statutory Standing under the Trust Indenture Act (TIA)

The Bank's Argument: The bank will argue that individual residential mortgage borrowers are completely insulated from the Pooling and Servicing Agreements (PSAs) or RMBS indentures. Relying on cases like *Retirement Board of the Policemen's Annuity... v. Bank of New York Mellon*, the bank will assert that the borrower is a "stranger to the trust contract" and a mere debtor, lacking the standing to enforce post-default duties against an international Indenture Trustee under the TIA.
The Fiduciary Countermeasure (UCC Article 8 Adverse Claim): The litigant rebuts this by asserting they are not suing as a consumer debtor, but as a perfected Holder in Due Course (HDC) holding legal title to the original negotiable instrument. By formally serving a notarized **Notice of Adverse Claim** under UCC § 8-105 upon the Indenture Trustee, the litigant permanently pierces the intermediary safe-harbor immunity (UCC § 8-115). Once the trustee receives this notice, their strict "Prudent Person" standard of care under TIA § 315(c) is actively triggered. Proceeding with an unperfected foreclosure after receiving notice of the Treasury-level discharge constitutes an active, non-consensual breach of TIA § 316(b) (Unimpaired Right to Payment).

Defense 3: The "Tax Defier" and Form 945 Inapplicability Defense

The Bank's Argument: The bank will attempt to characterize the 1099-OID filing as a frivolous "tax defier" theory, arguing that unilateral information returns cannot erase a valid mortgage contract. Furthermore, they will claim that IRS Form 945 is strictly for standard nonpayroll tax reporting and has no legal connection to mortgage securitization or OID generated through RMBS pools.
The Fiduciary Countermeasure (IRS Pub 1212 & Rev. Proc. 2002-26): The litigant dismantles this by pointing to the strict statutory mandates of the Internal Revenue Code. Under IRC § 3406 and IRS Publication 1212, OID generated by mortgage-backed bonds is explicitly subject to nominee reporting

and backup withholding rules. The bank's own Business Master File (BMF) records confirm they maintain an active Form 945 module specifically to clear these consolidated backup withholding liabilities. The litigant's use of Rev. Proc. 2002-26 is not a "tax defier" trick, but a lawful exercise of the Right of Designation by the perfected HDC and General Executor (established via Form 56), forcing the IRS to reallocate the bank's own corporate surpluses to cover the withholding deficit. The IRS-accepted MeF XML gateway receipt serves as *prima facie* administrative proof that the sovereign revenue authority has validated the transaction.

Defense 4: The Transatlantic Property Trap (The *Skelwith* Exception)

The Bank's Argument: For properties located in jurisdictions like the UK, the bank will argue that even if the transfer of the mortgage charge into the RMBS pool was unregistered (falling into the Land Registry "Registration Gap"), they still possess an equitable right to foreclose. They will cite the UK Chancery precedent of *Skelwith (Leisure) Ltd v. Armstrong*, which allows an equitable assignee of an unregistered legal charge to exercise a statutory power of sale.
The Fiduciary Countermeasure (Debt Extinguishment & The Lazarus Doctrine): The litigant neutralizes the *Skelwith* exception by proving the primary debt no longer exists. Under the commercial maxim *accessorium sequitur principale* (the accessory follows the principal), the mortgage is merely an accessory to the debt. Because the IRS-accepted XML transcript proves the primary debt liability was reallocated, balanced, and settled at the federal apex tier, there is no "mortgage money" left for the bank to receive or discharge. Consequently, the bank's equitable entitlement to foreclose is reduced to a nullity. Furthermore, intentionally concealing this completed federal discharge from the local domestic courts constitutes a severe fraud upon the court, rendering the entire foreclosure void *ab initio* under the *Lazarus Doctrine* ("fraud vitiates everything").

Conclusion

The discharge of a mortgage via a 1099-OID filing is not a retail debt-forgiveness loophole, but a highly sophisticated, transatlantic commercial ledger reconciliation. By utilizing a 98-series Foreign Grantor Trust to achieve Holder in Due Course standing, the original borrower reclaims their *ex nihilo* signature credit.

When challenged in federal courts like the SDNY, the successful litigant must shed the "trustee" label to survive *pro se* procedural bars, utilize UCC Article 8 to pierce Indenture Trustee immunity, and present IRS electronic gateway acceptance as unassailable proof of settlement. This legally severs the bank's accessory claim to the physical property, forces a consensual discharge of the mortgage title, and creates immense leverage for a private, out-of-court settlement driven by the bank's fear of public exposure of their Form 945/1120 tax reallocation vulnerabilities.

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